

GEORGE MASON UNIVERSITY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2010



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MANAGEMENT'S DISCUSSION AND ANALYSIS

George Mason University

Financial Statements for the Year Ended June 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Institutional Profile

Since it was founded in 1972, George Mason University has grown into a major educational force and earned a reputation as an innovative, entrepreneurial institution with global distinction in a range of academic fields including public policy, information technology, economics, the fine and performing arts, law, conflict resolution, and, most recently, the biosciences. The University's reputation continues to grow as it serves as an educational, cultural, and economic resource for the people of Northern Virginia, the Commonwealth of Virginia, and the nation. Located in Fairfax, Virginia, in the heart of Northern Virginia's technology corridor near Washington, D.C., George Mason has a growing and diverse student body, an exceptional faculty of enterprising scholars, and offers students access to diverse cultural experiences and the most sought-after internships and employers in the country.

Today, drawing prominent scholars from all fields, Mason's outstanding faculty includes Nobel laureates, a Pulitzer Prize winner, IEEE Centennial Medalists, and recipients of numerous grants and awards from the Fulbright programs, the National Science Foundation, and the National Endowment for the Arts, among others. Endowed chairs have also brought many artists and scholars to campus. With Mason professors conducting groundbreaking research in areas such as climate change, public policy, and the biosciences, George Mason University is a leading example of the modern, public university.

Total enrollment is approximately 32,000, with students studying in 186 degree programs at the undergraduate, master's, doctoral, and professional levels. This includes 71 undergraduate programs, 78 master's programs, 36 doctoral programs and one first professional degree. In the past several years, Mason has added 47 degree programs, including advanced degrees in climate dynamics, information security, and neuroscience, as well as undergraduate degrees in conflict analysis and resolution, global affairs, global and environmental change, and film and video studies. In 2009, Mason began offering Virginia's first Master's Program in Computer Forensics and launched Northern Virginia's first Master's of Public Health degree program.

Mason's growth and innovation has been publicly recognized by a variety of independent organizations. U.S. News and World Report named Mason the nation's number one university to watch on its list of "Up-and-coming Schools". The Princeton Review named Mason one of the nation's best values among undergraduate institutions, and Kiplinger Magazine put Mason on its national top 100 best values in public colleges list. In addition, for the third year in a row, AARP named Mason one of the 50 best places to work for those persons 50 years of age and older for providing a supportive workplace culture, and for three years in a row, the Chronicle of Higher Education, the premier publication for academic news and issues, named Mason one of the "Great Colleges to Work For."

George Mason is a distributed university with campuses in Fairfax, Arlington, and Prince William counties. Each campus has a distinctive academic focus that plays a critical role in the economy of its region. At each campus, students and faculty have access to all the university's resources, while duplication of programs and support services is minimized through the use of technology. The university also offers programs on-site in Loudoun County, at the Center for Innovative Technology's Herndon Training Center, at the Smithsonian Institute's Center in Front Royal, Virginia, and on the Internet. In addition, Mason remains committed to international collaborations and has reciprocal agreements with other universities and colleges around the world that will result in exchange of both faculty and students.

The University is an agency of the Commonwealth of Virginia and therefore is included as a component unit in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*, a separate financial report that incorporates all agencies, boards, commissions and authorities over which the Commonwealth exercises, or has the ability to exercise, oversight authority. The 16 members of the George Mason University Board of Visitors govern University operations. Members of the Board are appointed by the Governor of Virginia.

Higher Education Restructuring

The Restructured Higher Education Financial and Administrative Operations Act, as amended, provides the opportunity for all sixteen public colleges and universities in Virginia to become eligible for additional operational authority, provided state goals and management standards are met. Effective September 3, 2009, George Mason University was granted additional operating authority in the areas of information technology and procurement.

Overview of the Financial Statements and Financial Analysis

This unaudited *Management's Discussion and Analysis* (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. This discussion and analysis provides an overview of the financial condition and results of operations of George Mason University for the year ended June 30, 2010. Comparative numbers are included for the year ended June 30, 2009. MD&A includes highly summarized data and therefore should be read in conjunction with the financial statements and footnotes that follow this section. The University's management is responsible for all of the financial information presented, including this discussion and analysis.

The University's financial statements have been prepared in accordance with GASB principles which establish standards for external financial reporting for public colleges and universities. These principles require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories. The three required financial statements are the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. As stated above, these financial statements are summarized in MD&A.

Financial Highlights

During FY 2010, the University continued to invest heavily in the development of an infrastructure (facilities, on-campus housing, technology, athletics, regional campuses and support services) that supports the achievement of its educational plans. Several examples of the broad scope of this investment are set forth below.

At the forefront of this development is a significant increase in the number of residential facilities for students. Over the last seven years Mason has nearly doubled the number of resident students with a current overall campus capacity for 5,400 resident students. Another set of residence halls, Housing VIIIA, is already under construction and will add another 600 beds to campus by the Summer of 2012. In conjunction with the expansion of student housing facilities, Mason ended the outsourced day-to-day management of the housing facilities and assumed complete and direct control of student housing to most effectively meet the needs of students and the University.

Also during FY 2010, the University completed a five year building project with the formal dedication of its new \$50 million, 52,000 square foot Biomedical Research Laboratory at the Prince William campus. This facility provides Mason researchers with tremendous new opportunities to advance their groundbreaking work on the diagnosis, prevention, and treatment of infectious diseases and contribute even more to the national effort to fight bioterrorism. In addition to serving as a vehicle for conducting cutting edge research, the facility will attract to Mason some of the most acclaimed scientists in the country, and will serve as an economic driver for the University and the region, attracting out-of-state biotechnology companies interested in moving to Virginia.

At its Fairfax campus, the University completed construction of a hotel and conference center, the Mason Inn Conference Center and Hotel. The Mason Inn features 148 guest rooms, 20,000 square feet of meeting space, 12 meeting rooms, two ballrooms, and a full service restaurant and lounge. The Mason Inn's state-of-the-art technology provides the infrastructure necessary to host a wide variety of meetings including academic seminars and international video conferences. The Mason Inn has been accepted as a member in the International Association of Conference Centers (IACC).

In light of the Commonwealth's ongoing budget crisis, and the resulting series of cuts in support for higher education, the University's Board of Visitors voted to raise annual tuition and fees for the 2010-11 academic year. This decision will help provide the funding necessary for the University to invest in academic excellence, scholarships for students, expanded teaching spaces and research, and fund an increasing share of its operating budget as the percentage funded by the Commonwealth continues to decline. Despite the increase, Mason's tuition and fees will remain lower than many of Virginia's other four-year colleges and universities. The decision reflects the University's commitment to maintaining the highest level of standards and continuing to provide outstanding faculty and facilities.

Statement of Net Assets

The Statement of Net Assets presents the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities) of the University as of the end of the fiscal year. This statement is a point of time financial statement. The purpose of the Statement of Net Assets is to present readers of the financial statements a fiscal snapshot of George Mason University at the end of the fiscal year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

From the information presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the University. They are also able to determine how much the institution owes vendors and creditors. In addition, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall condition has improved or worsened during the year.

Net assets are divided into three major categories. The first category, “invested in capital assets, net of related debt,” provides the University’s equity in the property, plant, and equipment that it owns. The next category is “restricted net assets,” which is divided into two subcategories, expendable and nonexpendable. Expendable restricted net assets are available for expenditure by the institution but must be spent as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Nonexpendable restricted net assets consist of endowments and similar funds where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or placed in a reserve fund. The final category is “unrestricted net assets.” Unrestricted net assets are available to the University for any lawful purpose of the institution.

A summary of the University's assets, liabilities, and net assets at June 30, 2010, and June 30, 2009, follows.

Statement of Net Assets*

| | <u>June 30,</u> <u>2010</u> | <u>June 30,</u> <u>2009**</u> | Change (dollars) | Change (percentage) |
|---|--------------------------------|----------------------------------|---------------------|------------------------|
| Assets: | | | | |
| Current assets | \$143,806 | \$145,781 | (\$1,975) | -1% |
| Capital assets, net | 1,003,872 | 832,759 | 171,113 | 21% |
| Other noncurrent assets | <u>67,542</u> | <u>160,755</u> | <u>(93,213)</u> | -58% |
| Total assets | <u>1,215,220</u> | <u>1,139,295</u> | <u>75,925</u> | 7% |
| Liabilities: | | | | |
| Current liabilities | 157,800 | 193,510 | (35,710) | -18% |
| Noncurrent liabilities | <u>548,065</u> | <u>507,121</u> | <u>40,944</u> | 8% |
| Total liabilities | <u>705,865</u> | <u>700,631</u> | <u>5,234</u> | 1% |
| Net assets: | | | | |
| Invested in capital assets, net of Debt | 466,848 | 410,210 | 56,638 | 14% |
| Restricted: nonexpendable | 3,498 | 3,456 | 42 | 1% |
| Restricted: expendable | 11,899 | 6,692 | 5,207 | 78% |
| Unrestricted | <u>27,110</u> | <u>18,306</u> | <u>8,804</u> | 48% |
| Total net assets | <u>\$509,355</u> | <u>\$438,664</u> | <u>\$70,691</u> | 16% |

* in thousands

** as restated

The University's financial position remained strong at the end of FY 2010. Total assets were \$1.215 billion and net assets (total assets less liabilities of \$706 million) amounted to \$509 million. For FY 2010, current assets of \$143.8 million are \$14.0 million lower than current liabilities of \$157.8 million. In FY 2009 current assets were \$47.7 million lower than current liabilities. This increase in current assets relative to current liabilities is to be expected given the completion of numerous construction projects and reduction in capital asset related payables. Capital assets, net of accumulated depreciation of \$329.1 million, totaled \$1.004 billion, which represents an increase of \$171.1 million over FY 2009, and reflects the ongoing expansion of facilities at the University. The \$93.2 million, 58%, reduction in Other noncurrent assets reflects the reduction in restricted bond proceeds used to finance a large portion of the increase in capital assets.

During FY 2010, the University's total net asset position increased by \$70.7 million. The largest increase took place in the net asset category Invested in capital assets, which increased by \$56.6 million.

Capital Asset and Debt Administration

Development and renewal of capital assets is one of the critical factors in sustaining the high quality of the University's academic, research, and residential life functions. The University continues to maintain and upgrade current structures, and to add new facilities.

Note 5 of the Notes to Financial Statements describes the University's rapidly expanding investment in capital assets, with total depreciable capital asset additions of \$326.6 million (excluding land, construction in progress, and works of art) and additions to construction in progress of \$185.3 million. Depreciation expense increased by \$6.9 million over the prior year to \$36.4 million.

Capital asset additions in FY 2010 included increases of \$283.3 million in buildings, \$16.4 million in equipment, \$5.1 million in improvements, \$16.4 million in infrastructure, and \$5.3 million in library materials. The building increase included the completion and placing into service of the School of Art building, Aquia building, Rappahannock Parking Deck, Facilities Archive and Carpentry Shop, a section of Housing VII-C, Biomedical Research Laboratory, Hylton Performing Arts Center, Patriot Center renovation, numerous dorm renovations, a greenhouse, the Mason Inn (Hotel & Conference Center), Krasnow buildout and energy efficiency improvements. The increase in improvements included a pedestrian entry way, an outdoor challenge course and improvements to outdoor lighting and water conservation. Infrastructure was added between the new buildings and the Central Heating and Cooling Plant.

Additions to construction in progress during FY 2010 included construction costs for ongoing projects such as the Fenwick Library addition, SUB I building addition/renovation, Patriot Center renovation phase II, Student Union II building renovation, Fairfax Performing Arts building renovation, Fine Arts building renovation, Science and Tech II building renovation, Krasnow Institute addition phase II, Arlington II building, West Campus connector and campus entrances, Housing VII-C buildings, Housing VIII buildings, and Prince William Loop road and entrance.

Financial stewardship requires the effective management of resources, including the use of long-term debt to finance capital projects. Notes 7, 8 and 9 describe changes in the University's long-term debt. New capital long-term debt with a principal amount of \$51.4 million was issued during FY 2010. This increase is the result of \$18 million in Virginia 9(c) Revenue Bonds issued to finance Student Housing VII-C (\$8.3 million), the Presidents Park Phase I Renovation (\$1.8 million), and Student Housing VIII (\$7.9 million) and \$33.5 million in VCBA Notes, issued to finance the following projects: Arlington Phase II (\$5 million) Prince William Performing Arts Center (\$3.4 million), Fairfax Surge Space and Fit Out Data Center (\$1.7 million), Prince William Regional Biomedical Laboratory (\$2 million), Student Union I Building Addition/Renovation (\$7.7 million), Hotel and Conference Center (\$8.3 million), Prince William Loop Road and Entrance (\$.6 million), and Student Union II Building Renovation (\$4.8 million). Total long-term debt outstanding, including revenue bonds, notes payable, installment purchases, bond premiums and discounts, and deferred gains and losses on refundings increased by \$46.4 million from the end of FY 2009 to the end of FY 2010, to a total of \$561 million.

Contractual commitments for capital outlay projects under construction at year end decreased from \$168.4 million in FY 2009 to \$77.8 million in FY 2010. These obligations are for future efforts and therefore have not been accrued as expenses or liabilities on the University's financial statements. This decrease reflects the completion of several buildings during FY 2010

as well as ongoing construction on the other projects remaining in construction in progress as of year end.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented in the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the University's operating revenues, expenses incurred, and all other revenues, expenses, gains, and losses.

Generally speaking, operating revenues are received for providing goods and services to the students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Salaries and fringe benefits for faculty and staff are the largest type of operating expense. Nonoperating revenues are revenues received for which goods and services are not provided in exchange as part of a transaction. For example, state appropriations are nonoperating revenues because they are provided by the legislature without the legislature directly receiving commensurate goods and services for those revenues. State appropriations and gifts, included in this category, provide substantial support for paying operating expenses of the University. Therefore, the University, like most public institutions, will expect to report an operating loss.

A summary of the University's Statement of Revenues, Expenses, and Changes in Net Assets follows.

Statement of Revenues, Expenses, and Changes in Net Assets*

| | <u>June 30, 2010</u> | <u>June 30, 2009**</u> | <u>Change</u> <u>(dollars)</u> | <u>Change</u> <u>(percentage)</u> |
|--|----------------------|------------------------|-----------------------------------|--------------------------------------|
| Operating revenues: | | | | |
| Student tuition and fees, net of allowances | \$204,895 | \$183,204 | \$21,691 | 12% |
| Grants and contracts | 107,791 | 107,148 | 643 | 1% |
| Auxiliary enterprises and other | <u>122,644</u> | <u>108,497</u> | <u>14,147</u> | 13% |
| Total operating revenues | <u>435,330</u> | <u>398,849</u> | <u>36,481</u> | 9% |
| Operating expenses: | | | | |
| Education and general | 429,226 | 421,205 | 8,021 | 2% |
| Depreciation | 36,386 | 29,493 | 6,893 | 23% |
| Scholarships and fellowships | 21,260 | 16,329 | 4,931 | 30% |
| Auxiliary enterprises | <u>89,174</u> | <u>86,802</u> | <u>2,372</u> | 3% |
| Total operating expenses | <u>576,046</u> | <u>553,829</u> | <u>22,217</u> | 4% |
| Operating loss | (140,716) | (154,980) | 14,264 | -9% |
| Nonoperating revenues and expenses (net) | <u>137,837</u> | <u>146,803</u> | <u>(8,966)</u> | -6% |
| Income before other revenues, expenses, gains or losses | (2,879) | (8,177) | 5,298 | -65% |
| Capital appropriations, grants, contributions and other expenses | <u>73,570</u> | <u>49,117</u> | <u>24,453</u> | 50% |
| Increase in net assets | 70,691 | 40,940 | 29,751 | 73% |
| Net assets at beginning of year | <u>438,664</u> | <u>397,724</u> | <u>40,940</u> | 10% |
| Net assets at end of year | <u>\$509,355</u> | <u>\$438,664</u> | <u>\$70,691</u> | 16% |
| * in thousands | | | | |
| ** as restated | | | | |

Operating revenue, consisting mostly of tuition and fees, grants and contracts, and auxiliary enterprises, increased by \$36.5 million, or 9%, over the prior year. Student tuition and fees, net of scholarship allowances, increased by \$21.7 million, or 12%, over the prior year. This growth is attributable to increased enrollment, tuition rate increases at all levels and out-of-state and premium tuition revenue generated for law and graduate programs. Grants and contracts revenue increased by \$0.6 million, or 1%, over the prior year. Auxiliary revenue increased by \$14.1 million, or 13%, primarily due to increased student enrollment, an increase in the number of students housed on campus, and increased utilization of on campus facilities and programs.

Total operating expenses increased by \$22.2 million, or 4%, including an increase of \$8.1 million in compensation expenses, consisting of the natural expense classification salaries, wages, and fringe benefits, an increase in the purchase of goods and services of \$2.3 million, an increase in depreciation expense of \$6.9 million, and an increase in scholarships and fellowships of \$4.9 million.

Nonoperating revenues net of nonoperating expenses decreased by \$8.9 million, or 6%, due primarily to a \$20.4 million decline in unrestricted and restricted (non-capital) state general fund appropriations, a \$6.2 million increase in ARRA State Fiscal Stabilization Funds, a \$7.5 million increase in Pell receipts, a \$.5 million decrease in income from investments, interest, and gifts, and an increase in interest expense of \$1.7 million.

One of the most important numbers to note in the Statement of Revenues, Expenses, and Changes in Net Assets is "Income before other revenues, expenses, gains or losses" since this reflects both the University's operating results and the University's non-capital general fund appropriations from the Commonwealth, which are included in nonoperating revenues. This amount increased by approximately \$5.3 million (a smaller loss) over the previous year (a negative \$2.9 million for FY 2010 compared to a negative \$8.2 million for FY 2009). This increase in Income before other revenues, expenses, gains, or losses is primarily a result of the \$8.9 million reduction in Nonoperating revenues net of nonoperating expenses, set forth in the preceding paragraph, and the \$14.2 million reduction in the operating loss.

The final category on the Statement of Revenues, Expenses, and changes in Net Assets is called Other revenues, expenses, gain and losses and includes capital appropriations, grants, and gifts, and other expenses. This category increased by approximately \$24.5 million, or 50%, caused primarily by the combined effect of an increase of \$3.3 million in capital grants and gifts, and a \$21.7 million increase in capital appropriations through the Commonwealth's GOB and VCBA 21st Century programs.

Statement of Cash Flows

The final statement is the Statement of Cash Flows. This statement presents information about the cash activity of the University during the year. Cash flows from operations will always be different from the operating loss on the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA). This difference occurs because SRECNA is prepared on the accrual

basis of accounting and includes non-cash items, such as depreciation expense, while the Statement of Cash Flows presents cash inflows and cash outflows without regard to accrual items. The Statement of Cash Flows provides information to assess the ability of the University to generate cash flows sufficient to meet its obligations.

The statement is divided into five parts. The first deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, non-investing, and noncapital financing purposes such as the state appropriations for educational and general programs and financial aid. The third section reflects the cash flows from capital financing activities and shows the purchases, proceeds, and interest received from these activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. The fifth section reconciles the net cash used by operating activities to the operational loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

A summary of the University's Statement of Cash Flows follows.

Statement of Cash Flows*

| | <u>June 30,</u> <u>2010</u> | <u>June 30,</u> <u>2009</u> | <u>Change</u> <u>(dollars)</u> | <u>Change</u> <u>(percentage)</u> |
|--|--------------------------------|--------------------------------|-----------------------------------|--------------------------------------|
| Cash provided from operations | \$442,104 | \$394,112 | \$47,992 | 12% |
| Cash expended for operations | <u>542,526</u> | <u>522,063</u> | <u>20,463</u> | 4% |
| Net cash used for operations | <u>(100,422)</u> | <u>(127,951)</u> | <u>27,529</u> | -22% |
| Net cash provided by noncapital financing activities | 135,848 | 155,934 | (20,086) | -13% |
| Net cash provided by (used for) capital financing activities | (120,974) | (26,149) | (94,825) | 363% |
| Net cash provided by (used for) investing activities | <u>1,523</u> | <u>3,348</u> | <u>(1,825)</u> | -55% |
| Net (decrease) increase in cash | (84,025) | 5,182 | (89,207) | -1,721% |
| Cash and cash equivalents, beginning of year | <u>224,085</u> | <u>218,903</u> | <u>5,182</u> | 2% |
| Cash and cash equivalents, end of year | <u>\$140,060</u> | <u>\$224,085</u> | <u>(\$84,025)</u> | -37% |

* in thousands

The above summarized Statement of Cash Flows shows that the University generated 81 percent (\$442.1 million of \$542.5 million) of its operating cash requirements internally with the remainder (\$100.4 million) being provided in the form of appropriations from the Commonwealth of Virginia, gifts, and investment earnings. Nonoperating cash was provided by capital appropriations, gifts, capital gifts and grants, and the sale of revenue bonds, which were used to acquire capital assets.

Although operations expended \$20.4 million more cash in FY 2010 than in FY 2009, it also generated \$47.9 million more cash in FY 2010 than in FY 2009. Overall operations still resulted in a net usage of cash of \$100.4 million, but this was \$27.5 million less in net usage of cash than in FY 2009. The major sources of the \$47.9 million increase in cash provided by operations are student tuition and fees (\$24.5 million increase), grants and contracts (\$13.4 million increase), auxiliaries (\$11.0 million increase), and other receipts (\$1.0 million decrease). The major sources of the \$20.4 million increase in cash used by operations are payments for salaries, wages, and fringe benefits (\$13.0 million increase), payments for supplies and services (\$2.5 million increase), and payments for scholarships and fellowships (\$4.9 million increase).

Cash provided by non-capital financing activities decreased \$20.1 million in FY 2010, primarily due to a net decrease of \$20.4 million in state general fund appropriations. In addition there were large, but offsetting changes in other categories. In FY 2010, Pell grant receipts increased by \$7.5 million, and the University received \$6.2 million of ARRA state fiscal stabilization funds compared to none in FY 2009. However, these large increases were offset by a \$13.4 million decrease in advances from the Treasurer of Virginia.

The University's cash flow from capital financing activities decreased by \$94.8 million in FY 2010 compared to FY 2009. The primary components of the decrease in cash flow from capital financing activities include a reduction in the proceeds from capital appropriations (\$8.3 million decrease from FY 2009), a reduction in the proceeds from the issuance of capital related debt, including premiums, (\$113.6 million decrease from FY 2009), a reduction in capital grants and contributions (\$2.1 million decrease from FY 2009), an increase in cash outflows for debt service (\$5.4 million increase from FY 2009), a reduction in bond issuance costs (\$.9 million decrease from FY 2009), and a decrease in the purchases of capital assets (\$33.7 million increase from FY 2009).

The primary sources of cash from investing activities are interest on non-general fund and local cash balances, interest on unspent bond proceeds, and endowment investment earnings, and the primary use of cash from investing activities is the purchase of endowment investments. During FY 2010, these activities produced \$1.8 million less cash than they did in FY 2009 due to declining interest rates and lower balances of unspent bond proceeds earning interest.

Economic Outlook

George Mason University is a comprehensive, doctoral institution that is part of the Commonwealth of Virginia's statewide system of higher education. The University's economic outlook is therefore closely tied to that of the Commonwealth. As a public institution, the University receives substantial support from the Commonwealth in the form of operating and capital appropriations. Over the last several years the Commonwealth has experienced an historic revenue downturn, and although some signs of recovery exist, the budget situation remains precarious. During FY 2010 the significant, cumulative reductions to the University's operating budget were partially offset by federal stimulus funding. The federal stimulus funding will continue in FY 2011 but will expire in FY 2012. The operating budget cuts that have resulted from the economic downturn, and the resulting revenue shortfall, have exacerbated an existing trend in Virginia in which the funding of public higher education has been shifting away from general fund appropriations and onto tuition and fees and other sources of revenue. The Commonwealth's support of the cost of delivering higher education has fallen since 2001 from 61% to about 27%.

The University's six year strategic plan, set forth in 2008, reflects the need to offset the long-term trend in the reduction of the Commonwealth's funding for higher education, and therefore had already begun to position the University to manage the current budget crisis. Rather than scaling back in the face of reduced support from the Commonwealth, the University plans to build on its existing strengths in high quality educational programs, research, diversity, serving as a regional economic development engine, and global activities. The University will accomplish this through a commitment to entrepreneurial flexibility and responsiveness to opportunities for innovation, efficient use of resources, and imaginative use of technology to enhance cost containment efforts. The University will also further develop and enhance a variety of revenue streams, including monitoring and adjusting the level of tuition and fees to reflect the value of the education received, supporting additional financial aid to insure access for all income levels, expansion of research funding, expansion of private funding from endowments and gifts, and additional sales and services consistent with the University's mission. In addition, the University has ample debt capacity to continue to use debt to fund the ongoing expansion of the infrastructure needed to carry out the strategic plan through an active capital construction program. The University has established a Strategic Implementation committee to relate these broad overall strategic goals to specific planning efforts.

The University's economic future is supported and enhanced by its capital construction program. The capital construction program supports the University's mission by advancing the research agenda, reducing space deficiencies, supporting new university programs, improving the quality of on-campus life through investment in on-campus residence halls, including university life and services functions in all capital projects, and investing in recreation facilities.

The University's economic future is also supported and enhanced by its growing and diversified research program. The University's strategic plan calls for the University to grow levels of funded research by at least 70% by 2014 and strive for a ranking in the top 100 research universities.

Listed below are some representative examples of the University's current research activities:

- Researchers at the Volgenau School of Information Technology and Engineering are developing a detailed methodology to prevent cascading failures in the power grid in the event of sudden disruption.
- Researchers in the College of Science are designing the data mining techniques that will sift through the massive amounts of data gathered and analyzed by the Large Synoptic Survey Telescope, which amounts to 30 terabytes of information every night. The National Academy of Sciences listed this project as one of the most important astronomical projects of the next decade.
- Researchers in the National Center for Biodefense and Infectious Diseases are creating pre-symptomatic diagnostic technologies for diseases that are potential bioterror threats, such as anthrax, tularemia, and plague, as well as emerging infectious diseases, such as SARS, West Nile virus, and influenza.

The Commonwealth's budget crisis is a grave concern. The series of reductions for higher education have created a tremendous challenge to the University's ability to sustain its current operations. Federal stimulus funds helped to lessen the severity of the cuts in FY 2010, and will do so again in FY 2011. Nonetheless, it has taken great sacrifice on the part of faculty, staff, and students to keep the system running effectively. While the economy has begun to show signs of recovery, it is unlikely State support for higher education will return to prior levels, thus continuing and accelerating the longer term trend. Fortunately for the University, Management and the Board of Visitors have already established plans for, and have begun to implement, an operational and financial model for the University that is less reliant on State support and is driven by entrepreneurial creativity and flexibility, and the University's tradition of innovation.

FINANCIAL STATEMENTS

George Mason University
Statement of Net Assets
As of June 30, 2010

| | George Mason University | Component Units |
|--|------------------------------------|----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents (Note 2) | \$ 93,885,206 | \$ 17,635,043 |
| Short-term investments (Note 2) | 6,480,933 | 37,039,444 |
| Accounts receivable, net of allowance of \$960,853 (Note 4) | 6,862,460 | 277,102 |
| Notes receivable, net of allowance of \$7,830 (Note 4) | 778,820 | - |
| Grants and contracts receivable, restricted | 21,584,496 | - |
| Pledges receivable, net | - | 6,298,764 |
| Prepaid expenses | 5,427,068 | 67,676 |
| Inventories | 624,875 | - |
| Due from the Commonwealth of Virginia | 8,009,568 | - |
| Leasing Commissions | - | 354,247 |
| Unamortized bond issuance costs | 152,442 | 172,261 |
| | <hr/> | <hr/> |
| Total Current Assets | 143,805,868 | 61,844,537 |
| | <hr/> | <hr/> |
| Noncurrent assets: | | |
| Cash and cash equivalents, restricted (Note 2) | 57,853,863 | - |
| Appropriations available restricted | 77 | - |
| Notes receivable, net of allowance of \$54,407 (Note 4) | 3,888,037 | - |
| Depreciable capital assets, net of accumulated depreciation (Note 5) | 828,852,126 | 105,443,710 |
| Nondepreciable capital assets (Note 5) | 175,020,286 | 25,521,311 |
| Long-term investments (Note 2) | 3,527,645 | 48,461,677 |
| Pledges, receivable | - | 27,453,699 |
| Other assets | - | 12,168,373 |
| Unamortized bond issuance costs | 2,272,712 | 2,575,098 |
| | <hr/> | <hr/> |
| Total noncurrent assets | 1,071,414,746 | 221,623,868 |
| | <hr/> | <hr/> |
| Total assets | 1,215,220,614 | 283,468,405 |
| | <hr/> | <hr/> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses (Note 6) | 75,465,227 | 6,100,854 |
| Advance from Treasurer of Virginia | 107,180 | - |
| Deferred revenue | 35,995,134 | 1,462,188 |
| Obligations under securities lending | 17,973,583 | - |
| Deposits held in custody for others | 433,928 | 6,436,427 |
| Long-term liabilities--current portion (Notes 7-10) | 27,824,932 | 2,076,239 |
| | <hr/> | <hr/> |
| Total current liabilities | 157,799,984 | 16,075,708 |
| | <hr/> | <hr/> |
| Noncurrent liabilities (Notes 7-10) | 548,064,989 | 153,099,158 |
| | <hr/> | <hr/> |
| Total liabilities | 705,864,973 | 169,174,866 |
| | <hr/> | <hr/> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 466,848,193 | (1,397,330) |
| Restricted: nonexpendable | 3,498,084 | 57,139,898 |
| Restricted: expendable | 11,899,392 | 67,450,104 |
| Unrestricted | 27,109,972 | (8,899,133) |
| | <hr/> | <hr/> |
| Total net assets | \$ 509,355,641 | \$ 114,293,539 |
| | <hr/> | <hr/> |

The accompanying Notes to Financial Statements are an integral part of this statement.

George Mason University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2010

| | George Mason University | Component Units |
|--|------------------------------------|------------------------|
| Operating revenues: | | |
| Student tuition and fees (net of scholarship allowances of \$32,775,895) | \$ 204,894,744 | - |
| Federal grants and contracts | 74,667,440 | - |
| State, local, and nongovernmental grants and contracts | 33,123,738 | - |
| Auxiliary enterprises (net of scholarship allowances of \$9,940,184) | 116,761,863 | 4,067,135 |
| Other operating revenue | 5,882,427 | 30,801,703 |
| | <hr/> | <hr/> |
| Total operating revenue | 435,330,212 | 34,868,838 |
| | <hr/> | <hr/> |
| Operating expenses (Note 12) | | |
| Instruction | 207,245,178 | 2,468,913 |
| Research | 62,074,997 | 9,390,047 |
| Public service | 17,785,267 | 2,815,039 |
| Academic support | 43,551,246 | 2,546,065 |
| Student services | 20,244,437 | 62,435 |
| Institutional support | 43,879,106 | 7,807,677 |
| Operation and maintenance of plant | 34,444,951 | 3,219,848 |
| Depreciation and amortization | 36,386,504 | 4,133,129 |
| Scholarships and fellowships | 21,260,499 | 1,719,957 |
| Auxiliary enterprises | 89,173,819 | 2,327,653 |
| | <hr/> | <hr/> |
| Total operating expenses | 576,046,004 | 36,490,763 |
| | <hr/> | <hr/> |
| Operating income (loss) | (140,715,792) | (1,621,925) |
| | <hr/> | <hr/> |
| Nonoperating revenues (expenses): | | |
| State educational and general appropriation (Note 13) | 106,280,351 | - |
| State general fund appropriations - restricted | 15,969,551 | - |
| Pell Grant Receipts | 19,451,269 | - |
| Gifts | 497,432 | - |
| ARRA State Fiscal Stabilization Fund | 6,203,142 | - |
| Investment earnings | 186,634 | 5,795,556 |
| Interest income | 1,723,577 | - |
| Interest expense (Note 14) | (12,475,371) | (6,333,493) |
| Other | - | 12,448,184 |
| | <hr/> | <hr/> |
| Net nonoperating revenues | 137,836,585 | 11,910,247 |
| | <hr/> | <hr/> |
| Income before other revenues, expenses, gains, and losses | (2,879,207) | 10,288,322 |
| | <hr/> | <hr/> |
| Other revenues, expenses, gains, and losses: | | |
| Capital grants and gifts | 23,661,865 | 14,360,000 |
| Capital appropriations | 50,471,134 | - |
| Additions to permanent endowments | 42,307 | 978,018 |
| Other | (604,882) | (100,929) |
| | <hr/> | <hr/> |
| Net other revenues, expenses, gains, and losses | 73,570,424 | 15,237,089 |
| | <hr/> | <hr/> |
| Increase in net assets | 70,691,217 | 25,525,411 |
| | <hr/> | <hr/> |
| Net assets beginning of year | 440,941,571 | 99,735,490 |
| Prior period adjustment (Note 19, Note 11) | (2,277,147) | (10,967,362) |
| Net Assets beginning of year- restated | <hr/> | <hr/> |
| | 438,664,424 | 88,768,128 |
| | <hr/> | <hr/> |
| Net assets end of year | <u>\$ 509,355,641</u> | <u>114,293,539</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

George Mason University
Statement of Cash Flows
For the Year Ended June 30, 2010

| | |
|---|------------------------------|
| Cash flows from operating activities: | |
| Student tuition and fees | \$ 207,466,977 |
| Grants and contracts | 113,540,148 |
| Auxiliary enterprises | 114,969,144 |
| Perkins loan receipts | 526,646 |
| Other receipts | 5,601,469 |
| Payments to suppliers | (140,722,418) |
| Payments to employees and fringe benefits | (379,803,731) |
| Payments for scholarships and fellowships | (21,260,499) |
| Perkins loan disbursements | <u>(740,000)</u> |
| Net cash used by operating activities | <u>(100,422,264)</u> |
| Cash flows from noncapital financing activities | |
| State appropriations | 122,249,902 |
| Advance from Treasurer | (12,472,304) |
| Additions to endowments | 42,307 |
| Federal Family Education Loan Program receipts | 133,634,096 |
| Federal Family Education Loan Program disbursements | (133,614,438) |
| Federal Direct Loan Program receipts | 3,610,776 |
| Federal Direct Loan Program disbursements | (3,786,355) |
| Pell Grant receipts | 19,451,269 |
| Noncapital gifts | 497,432 |
| ARRA State Fiscal Stabilization Fund receipts | 6,203,142 |
| Agency transactions | <u>32,144</u> |
| Net cash provided by noncapital financing activities | <u>135,847,971</u> |
| Cash flows from capital and related financing activities | |
| Proceeds from capital appropriations available | 53,437,328 |
| Capital grants and contributions | 17,894,717 |
| Proceeds from sale of capital assets | 38,326 |
| Proceeds from issuance of capital related debt | 59,131,704 |
| Bond premium paid on capital related debt | 5,051,947 |
| Bond issuance costs on capital related debt | (229,752) |
| Principal paid on capital related debt | (16,754,911) |
| Interest paid on capital related debt | (11,856,030) |
| Purchases of capital assets | <u>(227,686,915)</u> |
| Net cash provided by capital and related financing activities | <u>(120,973,586)</u> |
| Cash flows from investing activities | |
| Interest on investments | 2,011,862 |
| Purchase of investments | <u>(488,512)</u> |
| Net cash provided by investing activities | <u>1,523,350</u> |
| Net increase in cash | (84,024,529) |
| Cash and cash equivalents - beginning of the year | 235,452,457 |
| Less: Securities Lending - Treasurer of Virginia | <u>(11,367,917)</u> |
| Cash and cash equivalents - beginning of the year (restated) | <u>224,084,540</u> |
| Cash and cash equivalents - end of the year | <u><u>\$ 140,060,011</u></u> |

The accompanying Notes to Financial Statements are an integral part of this financial statement.

George Mason University
Statement of Cash Flows
For the Year Ended June 30, 2010

RECONCILIATION OF STATEMENT OF CASH FLOWS, STATEMENT OF NET ASSETS:

Statement of Net Assets

| | |
|--|---------------------|
| Cash and cash equivalents | \$ 151,739,069 |
| Less: Securities lending - Treasurer of Virginia | <u>(11,679,058)</u> |

| | |
|-------------------------------|------------------------------|
| Net cash and cash equivalents | <u><u>\$ 140,060,011</u></u> |
|-------------------------------|------------------------------|

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

| | |
|---|--------------------------------|
| Operating loss | \$ (140,715,792) |
| Adjustments to reconcile net loss to net cash used by operating activities: | |
| Depreciation expense | 36,386,504 |
| Changes in assets and liabilities: | |
| Accounts receivable (net) | (1,472,044) |
| Restricted assets receivable (net) | 5,717,347 |
| Perkins loan receivable | (297,526) |
| Perkins loan liability | 84,172 |
| Inventory | (4,423) |
| Prepaid expenses | (1,763,577) |
| Due from Commonwealth | (50,038) |
| Accounts payable and accrued liabilities | (990,890) |
| Deferred revenue | 2,272,223 |
| Compensated absences | <u>411,780</u> |
| Net cash used by operating activities | <u><u>\$ (100,422,264)</u></u> |

NOTES TO FINANCIAL STATEMENTS

George Mason University

Notes to Financial Statements As of June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

George Mason University is a comprehensive, doctoral institution that is part of the Commonwealth of Virginia's statewide system of higher education. The Board of Visitors, appointed by the Governor, is responsible for overseeing the governance of the University. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the general-purpose financial statements of the Commonwealth.

According to Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, the George Mason University Foundation, Inc. (GMUF) and Mason Housing, Inc. (MHI) meet the criteria qualifying them as component units of the University. GMUF was established to receive, hold, invest and administer property, and to make expenditures for the benefit of the University. During the year ended June 30, 2010, GMUF distributed \$26,234,534 to, or on behalf of, the University for both restricted and unrestricted purposes. Separate financial information regarding GMUF may be obtained by writing to the GMUF Business Office at 4400 University Drive, MSN 1A3, Fairfax, VA 22030. MHI was established to build and manage the University's faculty and staff housing. During the year ended June 30, 2010, MHI completed construction of all units and began leasing them to faculty, staff, and graduate students. Separate financial information for MHI may be obtained by writing to Mason Housing, Inc., Attn- Thomas Calhoun, 4400 University Drive, MSN 2C1, Fairfax, VA 22030.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by the GASB, including all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement Number 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public College and Universities* an amendment of GASB Statement Number 34. The University follows

Statement Number 34 requirements for “reporting by special-purpose governments engaged only in business-type activities.”

GMUF and MHI are private, nonprofit organizations that report under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to GMUF and MHI’s financial information in the University’s financial reporting entity for these differences.

C. Basis of Accounting

The University’s financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated. The University’s policy is to spend restricted resources before unrestricted resources when both are available for expenses that are properly chargeable to restricted resources.

D. Investments

In accordance with GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

E. Capital Assets

Capital assets include land, buildings, library materials, works of art and historical treasures, equipment, improvements, infrastructure assets such as sidewalks, electrical and computer network cabling systems and intangible assets including computer software. Capital assets generally are defined by the University as assets with an initial cost of \$2,000 or more and an estimated useful life in excess of one year. Library materials are valued using published average prices for library acquisitions. Other capital assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation, with the exception of intra-entity capital asset donations which, in accordance with GASB Statement Number 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, are recorded at the carrying value of the asset on the transferor’s books as of the date of transfer. Expenses for major capital assets and improvements are capitalized as projects are constructed (construction in progress). Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal

maintenance and repairs that do not enhance the use of an asset, or materially extend its useful life, are not capitalized.

Depreciation is computed using the straight-line method over the estimated useful life of the asset with no residual value. Depreciation is not allocated to the functional expense categories. Normal useful lives by asset categories are listed below:

| | |
|---|--------------|
| Buildings | 25-50 years* |
| Improvements and infrastructure | 10-30 years |
| Equipment | 5-20 years |
| Intangibles including computer software | 5-10 years |
| Library materials | 10 years |

* Research buildings are depreciated using the component method. The estimated useful lives of research building components range from 10-50 years.

F. Inventory

Inventory is composed of two distinct categories of items. The first category is composed of computers and related items for resale to students, faculty and staff. The second category is natural gas, which is used to power the University's physical plant. Both categories of inventory are valued at cost using the first-in, first-out inventory methodology.

G. Noncurrent Cash and Investments

Cash and investments that are externally restricted for expenditure in the acquisition or construction of noncurrent assets, to make debt service payments, or maintain sinking or reserve funds are classified as noncurrent assets in the Statement of Net Assets.

H. Deferred Revenue

Deferred revenue represents monies collected but not earned as of June 30, 2010. This is primarily composed of student tuition collected for courses that will be offered after June 30, 2010.

I. Accrued Compensated Absences

The amount of leave earned but not taken by salaried employees and administrative faculty members is recorded as a liability. The amount reflects, as of June 30, 2010, all unused vacation, overtime, compensatory, recognition and sick leave payable upon termination under University policy. The applicable share of employer related payroll taxes also is included.

J. Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, and Perkins Loan

programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

K. Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets, not fund balances. Net assets are classified as invested in capital assets, net of related debt; restricted; and unrestricted. "Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as "restricted" when constraints on the net asset use are either externally imposed by creditors, grantors, or contributors; or imposed by law. Unrestricted net assets consist of net assets that do not meet the definitions above.

L. Revenue Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, local and nongovernmental grants and contracts.

Certain governmental financial aid grants, with the exception of Pell grants which are treated as nonoperating revenue, and other federal, state or nongovernmental programs, are recorded as grants and contracts revenues in the University's financial statements.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, and other revenue sources that are defined as nonoperating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment and interest income. Nonoperating expenses include interest on debt related to the purchase of capital assets.

M. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the student's behalf.

N. Prepaid expenses

The University has recorded as a current asset facility rentals and insurance premiums for fiscal year 2011 that were paid in advance as of June 30, 2010.

O. Discounts, Premiums, and Bond Issuance Costs

Revenue bonds and notes payable on the Statement of Net Assets are reported net of related discounts, premiums, and deferred gains and losses on debt refunding, which are expensed over the life of the bond. Similarly, bond issuance costs are reported as a noncurrent asset that is amortized over the life of the bond on a straight-line basis.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for the period beginning after June 15, 2004. It amends GASB Statement 3, *Deposits with Financial Institutions*. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits for FY 2010, but does have Category 3 investments. The following risk disclosures are required by GASB:

Custodial Credit Risk - the custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The University has investments that are not registered in the University's name, and which are held by the George Mason University Foundation (GMUF), a separate not-for-profit corporation under the laws of the Commonwealth of Virginia. GMUF was created to receive, hold, invest and administer property, and to make expenditures for the benefit of the University. GMUF holds corporate stocks on behalf of the University in the amount of \$507,798, and corporate bonds in the amount of \$32,714. The other investments held for the University by GMUF are not subject to custodial credit risk.

Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement Number 40 requires the disclosure of the credit quality ratings of all investments in debt securities subject to credit risk. Credit quality ratings are not required for U.S. government securities or other obligations explicitly guaranteed by the U.S. government. Information with respect to the University deposit exposure to credit risk is discussed below. The corporate bonds, in the amount of \$32,714, held for the University by GMUF, are debt securities, and therefore subject to credit risk. Credit risk relative to these bonds is mitigated by GMUF's investment policy guidelines on the credit quality of fixed income investments which states that the percentage of all fixed income assets rated below investment grade by one of the major reporting agencies (S&P and Moody's) cannot exceed 30%. The other investments held for the University by GMUF are not investments of a type that are subject to credit risk

Concentration of Credit Risk - the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB Statement Number 40 requires

disclosure of investments with any one issuer that represents five percent or more of total investments. However, investments issued or explicitly guaranteed by the U.S. government, and investments in mutual funds, external investment pools, and other pooled investments are excluded from the requirement. The University's investments are held by GMUF as a share of a larger investment pool managed by GMUF. No single issuer represents five percent or more of the overall investment pool managed by GMUF.

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment. GASB Statement Number 40 requires disclosure of maturities for any investments subject to interest rate risk. GMUF holds money market funds in the amount of \$818,868 for the University. These money market funds have a maturity of less than one year. GMUF holds corporate bonds in the amount of \$32,714 for the University. These corporate bonds are subject to interest rate risk. The interest rate risk relative to these bonds is mitigated by GMUF's investment policy guidelines on fixed income maturity restrictions, which limit maturities to a weighted average portfolio duration not to exceed 1.5 times the duration of the Lehman aggregate bond index. The other investments held for the University by GMUF are not investments of a type that are subject to interest rate risk.

Foreign Currency Risk - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had no foreign investments but had foreign deposits in the amount of \$247,475 for FY 2010.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds, maintains all state funds of the University. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. In accordance with the GASB Statement 9, Definition of Cash and Cash Equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less.

B. Investments

The investment policy of the University is established by the Board of Visitors and monitored by the Finance and Land Use Committee of the Board. The University has cash and cash equivalents and investments as set forth in Section D.

C. Securities Lending Transactions

Investments and cash equivalents held by the Treasurer of Virginia represent the University's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the *Commonwealth of Virginia's Comprehensive Annual Financial Report*. The

Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

D. Summary of the University's Cash, Cash Equivalents, and Investments

| | <u>Market Value</u> |
|--|----------------------|
| Cash and cash equivalents: | |
| Local funds | \$ 15,536,600 |
| Treasurer of Virginia | 66,669,548 |
| Treasurer of Virginia (Securities Lending) | <u>11,679,058</u> |
| Subtotal | 93,885,206 |
| Restricted cash and cash equivalents: | |
| Treasurer of Virginia (State Nonarbitrage Program) | <u>57,853,863</u> |
| Total | <u>\$151,739,069</u> |
| Investments: | |
| Short-term: | |
| Treasurer of Virginia (Securities Lending) | \$6,294,525 |
| Money Market Funds & Cash - held by GMUF | 186,408 |
| Long-Term: | |
| Corporate stocks - held by GMUF | 507,798 |
| Corporate bonds - held by GMUF | 32,714 |
| Mutual funds - held by GMUF | 876,805 |
| Money Market Funds & Cash - held by GMUF | 632,460 |
| Certificates of deposit - held by GMUF | 7,391 |
| Alternative investments - held by GMUF | <u>1,470,477</u> |
| Total | <u>\$10,008,578</u> |

3. DONOR-RESTRICTED ENDOWMENTS

The University's endowment is managed by the George Mason University Foundation (GMUF). During FY 2010, \$135,457 of net appreciation of donor-restricted endowments became available for expenditure by the governing board.

Net appreciation of donor restricted-endowments is recorded in the Net Assets of the University as an increase in Net assets restricted- expendable to reflect the fact that the net appreciation must be spent in accordance with the stipulations set forth in the underlying endowment agreements.

The state law regarding the ability to spend net appreciation of donor-restricted endowments is the *Uniform Prudent Management of Institutional Funds Act*, Section 55-268.11 of the Code of Virginia.

The University's endowment policy seeks to maintain the growth of the present value of existing assets at a rate at least equal to the inflation rate plus the current distribution rate of 5.75% based on a three year rolling average of each endowment's fair value.

4. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consisted of the following at June 30, 2010:

Accounts Receivable:

| | |
|---------------------------|------------------|
| Student tuition and fees | \$6,761,812 |
| Other accounts receivable | <u>1,061,501</u> |

| | |
|---------------------------|--------------------|
| Total accounts receivable | <u>\$7,823,313</u> |
|---------------------------|--------------------|

| | |
|--------------------------------------|------------------|
| Less allowance for doubtful accounts | <u>(960,853)</u> |
|--------------------------------------|------------------|

| | |
|-------------------------|---------------------------|
| Net accounts receivable | <u><u>\$6,862,460</u></u> |
|-------------------------|---------------------------|

Notes Receivable:

Current:

| | |
|--------------------------------------|----------------|
| Perkins loans receivable | \$564,071 |
| State and nursing loans | 202,241 |
| Loans to students, faculty and staff | 20,338 |
| Less allowance for doubtful accounts | <u>(7,830)</u> |

| | |
|--------------------------------|-------------------------|
| Total current notes receivable | <u><u>\$778,820</u></u> |
|--------------------------------|-------------------------|

Noncurrent:

| | |
|--------------------------------------|-----------------|
| Perkins loans receivable | \$3,919,258 |
| State and nursing loans | \$23,186 |
| Less allowance for doubtful accounts | <u>(54,407)</u> |

| | |
|----------------------------------|---------------------------|
| Net non-current notes receivable | <u><u>\$3,888,037</u></u> |
|----------------------------------|---------------------------|

5. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2010 is as follows:

| | Beginning Balance (restated) | Additions | Reductions | Ending Balance |
|--|------------------------------------|----------------------|----------------------|------------------------|
| Non-depreciable capital assets: | | | | |
| Land | \$15,674,061 | 3,358,441 | - | \$19,032,502 |
| Construction-in-progress | 277,447,192 | 185,278,841 | 307,506,266 | 155,219,767 |
| Works of art and historical treasures | <u>366,177</u> | <u>401,840</u> | - | <u>768,017</u> |
| Total non-depreciable capital assets | <u>293,487,430</u> | <u>189,039,122</u> | <u>307,506,266</u> | <u>175,020,286</u> |
| Depreciable Capital Assets: | | | | |
| Buildings | 595,041,308 | 283,265,712 | - | 878,307,020 |
| Improvements | 28,367,029 | 5,128,648 | 514,855 | 32,980,822 |
| Infrastructure assets | 30,545,616 | 16,449,910 | - | 46,995,526 |
| Equipment* | 92,747,972 | 16,407,568 | 5,015,240 | 104,140,300 |
| Intangibles including computer software* | 12,238,778 | 42,231 | - | 12,281,009 |
| Library materials | <u>78,462,683</u> | <u>5,315,898</u> | <u>557,631</u> | <u>83,220,950</u> |
| Total Depreciable Capital Assets | <u>837,403,386</u> | <u>326,609,967</u> | <u>6,087,726</u> | <u>1,157,925,627</u> |
| Less accumulated depreciation: | | | | |
| Buildings | 152,286,987 | 20,415,939 | - | 172,702,926 |
| Improvements | 16,687,432 | 1,260,020 | 307,937 | 17,639,515 |
| Infrastructure assets | 13,237,435 | 1,040,928 | - | 14,278,363 |
| Equipment* | 53,855,788 | 7,796,397 | 4,578,949 | 57,073,236 |
| Intangibles including computer software* | 8,096,449 | 1,111,463 | - | 9,207,912 |
| Library materials | <u>53,967,424</u> | <u>4,761,756</u> | <u>557,631</u> | <u>58,171,549</u> |
| Total accumulated depreciation | <u>298,131,515</u> | <u>36,386,503</u> | <u>5,444,517</u> | <u>329,073,501</u> |
| Depreciable capital assets, net | <u>539,271,871</u> | <u>290,223,464</u> | <u>643,209</u> | <u>828,852,126</u> |
| Total capital assets, net | <u>\$832,759,301</u> | <u>\$479,262,586</u> | <u>\$308,149,475</u> | <u>\$1,003,872,412</u> |

*In prior fiscal years, amounts for computer software were included on the two Equipment lines. Beginning with FY 2010, two separate lines for Intangibles including computer software have been added to the display. Therefore, the beginning balances for Equipment for FY 2010 do not tie to the ending balances for Equipment for FY 2009 by the amount of the FY 2010 beginning balances for Intangibles including computer software.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2010:

| | |
|--|----------------------|
| Employee salaries, wages and fringe benefits payable | 30,915,402 |
| Vendors and suppliers accounts payable | 12,497,267 |
| Interest Payable | 6,229,779 |
| Capital projects accounts and retainage payable | <u>25,822,779</u> |
| Total accounts payable and accrued expenses | <u>\$ 75,465,227</u> |

7. NONCURRENT LIABILITIES

Noncurrent liabilities consist of long-term debt, installment purchases, accruals for compensated absences and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ended June 30, 2010 is as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> | <u>Non-current Portion</u> |
|----------------------------------|------------------------------|----------------------|---------------------|---------------------------|----------------------------|--------------------------------|
| Long-term debt: | | | | | | |
| Revenue Bonds | \$158,443,611 | \$43,530,014 | \$33,465,965 | \$168,507,660 | \$8,369,511 | \$160,138,149 |
| Notes Payable | 329,710,000 | 33,465,000 | 7,510,000 | 355,665,000 | 11,970,000 | 343,695,000 |
| Installment Purchases | 11,668,605 | 7,711,704 | 1,358,946 | 18,021,363 | 1,588,795 | 16,432,568 |
| Bond Discount | (137,551) | - | (16,523) | (121,028) | (16,523) | (104,505) |
| Bond Premium | 15,229,842 | 8,715,816 | 2,127,280 | 21,818,378 | 1,392,667 | 20,425,711 |
| Deferred amount on refundings | <u>(307,949)</u> | <u>(2,749,850)</u> | <u>(181,422)</u> | <u>(2,876,377)</u> | <u>(252,016)</u> | <u>(2,624,361)</u> |
| Total Long-term Debt | <u>514,606,558</u> | <u>90,672,684</u> | <u>44,264,246</u> | <u>561,014,996</u> | <u>23,052,434</u> | <u>537,962,562</u> |
| Accrued Compensated Absences | 11,860,828 | 11,575,960 | 11,164,180 | 12,272,608 | 4,772,498 | 7,500,110 |
| Loan Funds | <u>2,518,145</u> | <u>84,172</u> | - | <u>2,602,317</u> | - | <u>2,602,317</u> |
| Total Long-term Liabilities | <u>\$528,985,531</u> | <u>\$102,332,816</u> | <u>\$55,428,426</u> | <u>\$575,889,921</u> | <u>\$27,824,932</u> | <u>\$548,064,989</u> |

8. BONDS PAYABLE

A. Revenue Bonds

George Mason University bonds are issued pursuant to Section 9, Article X of the Constitution of Virginia. Section 9(c) bonds are backed by the full faith, credit, and taxing power of the Commonwealth, and are issued to finance capital projects which, when completed, are expected to generate revenue to repay the debt. Conversely, section 9(d) bonds are exclusively the limited obligations of the University to be repaid from pledged general revenues and other funds generated by the University. Net proceeds from the sale of revenue bonds are required to be invested in the Virginia State Non-Arbitrage program. GASB Statement Number 31 deems this participation to be involuntary.

The following schedule describes each of the revenue bonds outstanding:

| <u>Bond Title</u> | <u>Year Issued</u> | <u>Original Amount</u> | <u>Interest Rate</u> | <u>Bond Term</u> | <u>Final Payment Due</u> | <u>Balance Outstanding at June 30, 2010</u> |
|--|--------------------|------------------------|----------------------|------------------|--------------------------|---|
| 9 (c) Revenue Bonds: | | | | | | |
| Residence Hall V | 2001 | \$21,780,000 | 4.0 to 5.0% | 23 Years | 2024 | \$855,000 |
| Housing Renovations | 2001 | 3,435,000 | 4.0 to 5.0% | 10 Years | 2011 | 445,000 |
| University Center | 2002 | 14,695,852 | 3.75 to 5.25% | 13 Years | 2015 | 7,505,916 |
| Residence Hall V | 2002 | 8,635,000 | 2.25 to 5.0% | 20 Years | 2022 | 1,200,000 |
| Commonwealth and Dominion | 2004 | 2,340,000 | 3.75 to 5.0% | 10 Years | 2014 | 1,065,000 |
| 9(c) 2004 B Refunding (2001) | 2004 | 9,939,875 | 2.0 to 5.0% | 16 Years | 2020 | 9,699,215 |
| Student Housing VII | 2005 | 25,800,000 | 3.75 to 5.0% | 25 Years | 2030 | 17,160,000 |
| Student Housing VII RB#2 | 2006 | 39,080,000 | 4.0 to 5.0% | 25 Years | 2031 | 28,885,000 |
| Renovate Housing Facilities-Dominion | 2006 | 2,420,000 | 5.00% | 10 Years | 2016 | 1,730,000 |
| Housing VIIC & Entrance Road | 2007 | 15,495,000 | 4.0 to 5.0% | 25 Years | 2032 | 15,105,000 |
| Presidents Park Renovation | 2007 | 3,130,000 | 5.00% | 10 Years | 2017 | 2,545,000 |
| Housing VII RB#3 | 2007 | 2,010,000 | 4.0 to 5.0% | 25 Years | 2032 | 1,915,000 |
| Renovate Commonwealth & Dominion Ph II | 2008 | 1,530,000 | 3.0 to 5.0% | 10 Years | 2018 | 1,390,000 |
| Renovate Presidents Park Ph I | 2008 | 3,095,000 | 3.0 to 5.0% | 10 Years | 2018 | 2,810,000 |
| Student Housing VII | 2008 | 1,955,000 | 3.0 to 5.0% | 25 Years | 2033 | 1,870,000 |
| Student Housing VIIC | 2008 | 23,870,000 | 3.0 to 5.0% | 25 Years | 2033 | 23,870,000 |
| Renovate Presidents Park Ph II | 2008 | 3,120,000 | 3.0 to 5.0% | 20 Years | 2028 | 3,120,000 |
| 9(c) 2008 B Refunding (1998) | 2008 | 740,117 | 3.0 to 5.0% | 4 Years | 2012 | 377,515 |
| Renovate Presidents Park Ph I | 2009 | 1,790,000 | 3.0 to 5.0% | 10 Years | 2019 | 1,790,000 |
| Student Housing VIIC | 2009 | 8,255,000 | 3.0 to 5.0% | 25 Years | 2034 | 8,255,000 |
| Student Housing VIII | 2009 | 7,910,000 | 4.0 to 5.0% | 25 Years | 2034 | 7,910,000 |
| 9(c) 2009 C Refunding (2001) | 2009 | 6,266,975 | 3.0 to 4.0% | 15 Years | 2024 | 6,266,975 |
| 9(c) 2009 C Refunding (2002) | 2009 | 4,448,039 | 3.0 to 4.0% | 13 Years | 2022 | 4,448,039 |
| 9(c) 2009 D Refunding (2005) | 2009 | 6,630,000 | 2.5 to 5.0% | 13 Years | 2022 | 6,630,000 |
| 9(c) 2009 D Refunding (2006B) | 2009 | <u>8,230,000</u> | 2.5 to 5.0% | 13 Years | 2022 | <u>8,230,000</u> |
| Total 9 (c) bonds | | <u>226,600,858</u> | | | | <u>165,077,660</u> |
| 9 (d) Revenue Bonds: | | | | | | |
| Refunded Krasnow Institute for Advanced Study* | 2003 | 2,677,686 | 5.2 to 6.375% | 13 Years | 2016 | 1,889,807 |
| Refunded Warehouse | 2003 | <u>2,182,314</u> | 5.2 to 6.375% | 13 Years | 2016 | <u>1,540,193</u> |
| Total 9 (d) bonds | | <u>4,860,000</u> | | | | <u>3,430,000</u> |
| Total Bonds Payable | | <u>\$231,460,858</u> | | | | <u>\$168,507,660</u> |

* The Krasnow Foundation has deposited funds with the George Mason University Foundation, which are used to reimburse the University for the debt service payments the latter is obligated to make.

Long-term debt from Revenue Bonds as of June 30, 2010 matures as follows:

| <u>YEAR</u> | <u>PRINCIPAL</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|-------------|----------------------|---------------------|----------------------|
| 2011 | \$8,369,511 | \$7,904,055 | \$16,273,566 |
| 2012 | 8,274,157 | 7,515,887 | 15,790,044 |
| 2013 | 8,671,257 | 7,115,584 | 15,786,841 |
| 2014 | 8,738,182 | 6,692,762 | 15,430,944 |
| 2015 | 9,272,599 | 6,275,834 | 15,548,433 |
| 2016-2020 | 36,704,206 | 25,527,198 | 62,231,404 |
| 2021-2025 | 37,197,748 | 16,940,011 | 54,137,759 |
| 2026-2030 | 36,880,000 | 8,644,244 | 45,524,244 |
| 2031-2035 | <u>14,400,000</u> | <u>1,345,538</u> | <u>15,745,538</u> |
| Total | <u>\$168,507,660</u> | <u>\$87,961,113</u> | <u>\$256,468,773</u> |

B. Commonwealth Bond Obligations

Commonwealth of Virginia Educational Institutions bonds, 9(b) general obligation bonds, were approved by voter referendum in the November 1992 general election. The bond liability is assumed by the Commonwealth of Virginia and is not reflected as a liability of the University.

In December 1996, Virginia College Building Authority issued \$53,160,000 in Educational Facilities Revenue bonds for the 21st Century College Program. The bond liability is assumed by the Commonwealth of Virginia and is not reflected as a liability of the University.

Chapter 924 of the 1997 Act of the General Assembly authorized the Virginia Public Building Authority to provide \$500,000 for capital costs related to the University's construction of the Prince William Auditorium from the excess bond proceeds of the Authority. The bond liability is assumed by the Commonwealth of Virginia and is not reflected as a liability of the University.

C. 2010 Defeasance of Debt

In November 2009, the Treasury Board, on behalf of the University, issued \$10,715,014 of General Obligation Bonds, Series 2009C and \$14,860,000 of General Obligation Bonds, Series 2009D to advance refund \$25,580,000 of Series 2001, 2002, 2005, and 2006B bonds. As a result, these bonds are considered to be defeased and the liability has been removed from the noncurrent liabilities line in the Statement of Net Assets. Any related assets in escrow have similarly been excluded. The resulting net loss of \$2,749,850 will be amortized over the life of the new debt. The details of each bond issue refunded are below.

| | Bonds <u>Refunded</u> | Interest Rate (Bonds <u>Refunded</u>) | Refunding Bonds <u>Issued</u> | Interest Rate (Refunding Bonds) | Accounting <u>Gain (Loss)</u> | Reduction in Debt <u>Service</u> | Economic <u>Gain</u> |
|---------------------------|--------------------------|--|-------------------------------------|--|----------------------------------|--|-------------------------|
| Housing V, Series 2001 | \$5,945,000 | 4.75 – 4.875% | \$6,266,975 | 3.0 – 4.0% | (\$619,250) | \$282,590 | \$271,100 |
| Housing V, Series 2002 | 4,775,000 | 4.0 – 5.0% | 4,448,039 | 3.0 – 4.0% | 108,006 | 606,455 | 550,927 |
| Housing VII, Series 2005 | 6,630,000 | 5.0% | 6,630,000 | 5.0% | (1,029,376) | 128,917 | 129,026 |
| Housing VII, Series 2006B | <u>8,230,000</u> | 5.0% | <u>8,230,000</u> | 5.0% | <u>(1,209,230)</u> | <u>160,028</u> | <u>160,164</u> |
| Total | \$25,580,000 | | \$25,575,014 | | (\$2,749,850) | \$1,177,990 | \$1,111,217 |

D. Prior Year Bond Defeasance

The Commonwealth of Virginia, on behalf of the University, issued bonds in previous fiscal years for which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the University's financial statements. On June 30, 2010, \$15,775,000 of Series 2001, \$4,775,000 of Series 2002,

\$6,630,000 of Series 2005, and \$8,230,000 of Series 2006B 9(c) general obligation bonds were considered defeased.

9. NOTES PAYABLE

The University participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue secures these notes.

The following schedule describes each of the notes outstanding:

| <u>Bond Title</u> | <u>Year Issued</u> | <u>Original Amount</u> | <u>Interest Rate</u> | <u>Bond Term</u> | <u>Final Payment Due</u> | <u>Balance Outstanding at June 30, 2010</u> |
|---|--------------------|------------------------|----------------------|------------------|--------------------------|---|
| Student Union I Renovation | 2002 | \$2,460,000 | 3.0 to 5.0% | 9 Years | 2012 | \$625,000 |
| Parking Deck II | 2003 | 13,455,000 | 2.5 to 5.0% | 21 Years | 2025 | 11,135,000 |
| Fairfax Research I | 2004 | 10,005,000 | 3.0 to 5.0% | 21 Years | 2026 | 8,645,000 |
| Aquatic Fitness Center | 2004 | 6,785,000 | 3.0 to 5.0% | 16 Years | 2021 | 5,385,000 |
| VCBA 2004B Refunding (1997A) | 2004 | 13,470,000 | 3.0 to 5.0% | 12 Years | 2017 | 11,965,000 |
| VCBA 2004B Refunding (1999A) | 2004 | 2,720,000 | 3.0 to 5.0% | 15 Years | 2020 | 2,635,000 |
| Krasnow Institute | 2005 | 4,495,000 | 3.5 to 5.0% | 21 Years | 2027 | 4,060,000 |
| Student Union III | 2005 | 4,890,000 | 3.5 to 5.0% | 21 Years | 2027 | 4,420,000 |
| Student Union III RB#2 | 2006 | 5,190,000 | 3.0 to 5.0% | 21 Years | 2028 | 4,865,000 |
| PE Addition/Renovation | 2006 | 6,035,000 | 3.0 to 5.0% | 22 Years | 2029 | 5,850,000 |
| PE Building Addition, Phase II | 2006 | 2,800,000 | 3.0 to 5.0% | 22 Years | 2029 | 2,715,000 |
| Krasnow Institute Addition | 2006 | 1,955,000 | 3.0 to 5.0% | 20 Years | 2027 | 1,765,000 |
| Patriot Center Addition/Renovation | 2006 | 8,200,000 | 3.0 to 5.0% | 21 Years | 2028 | 7,690,000 |
| PW Bio Containment Lab | 2006 | 13,260,000 | 3.0 to 5.0% | 22 Years | 2029 | 12,855,000 |
| PW Performing Arts Center | 2006 | 10,790,000 | 3.0 to 5.0% | 22 Years | 2029 | 10,460,000 |
| Fairfax Surge Space Fit Out | 2006 | 1,515,000 | 3.0 to 5.0% | 21 Years | 2028 | 1,420,000 |
| Fairfax Surge Space Building | 2006 | 6,340,000 | 3.0 to 5.0% | 21 Years | 2028 | 5,945,000 |
| PW Performing Arts Center RB#2 | 2007 | 8,565,000 | 4.5 to 5.0% | 20 Years | 2028 | 8,285,000 |
| Student Union I Renovation | 2007 | 5,085,000 | 4.5 to 5.0% | 20 Years | 2028 | 4,920,000 |
| Student Union III RB#3 | 2007 | 6,130,000 | 4.5 to 5.0% | 25 Years | 2033 | 5,865,000 |
| PE Addition/Renovation RB#2 | 2007 | 8,555,000 | 4.5 to 5.0% | 20 Years | 2028 | 8,275,000 |
| PE Building Addition Phase II, RB#2 | 2007 | 3,820,000 | 4.5 to 5.0% | 20 Years | 2028 | 3,695,000 |
| Fairfax Surge Space Bldg RB#2 | 2007 | 2,965,000 | 4.5 to 5.0% | 20 Years | 2028 | 2,870,000 |
| Academic VI/Research II | 2007 | 4,945,000 | 4.5 to 5.0% | 20 Years | 2028 | 4,785,000 |
| Parking Deck III | 2007 | 20,750,000 | 4.5 to 5.0% | 25 Years | 2033 | 20,285,000 |
| Softball Field Improvement | 2007 | 1,510,000 | 5.00% | 10 Years | 2018 | 1,265,000 |
| Hotel & Conference Center | 2007 | 18,000,000 | 4.5 to 5.0% | 30 Years | 2038 | 17,710,000 |
| Student Union II Renovation | 2007 | 1,490,000 | 5.00% | 10 Years | 2018 | 1,355,000 |
| VCBA 2007B Refunding (1997A) | 2007 | 3,555,000 | 4 to 4.25% | 10 Years | 2018 | 2,170,000 |
| VCBA 2007B Refunding (2005A) | 2007 | 1,675,000 | 4.0 to 4.5% | 12 Years | 2020 | 1,615,000 |
| Patriot Center Renovation, Phase II | 2009 | 1,860,000 | 2.1 to 5.0% | 20 Years | 2029 | 1,860,000 |
| Arlington Phase II | 2009 | 7,945,000 | 2.1 to 5.0% | 25 Years | 2034 | 7,945,000 |
| PW Performing Arts Center RB#3 | 2009 | 17,960,000 | 2.1 to 5.0% | 20 Years | 2029 | 17,960,000 |
| Parking Deck III Phase I | 2009 | 9,790,000 | 2.1 to 5.0% | 25 Years | 2034 | 9,790,000 |
| PE Building Phase I | 2009 | 2,750,000 | 2.1 to 5.0% | 20 Years | 2029 | 2,750,000 |
| Surge Space & Fit-Out | 2009 | 10,730,000 | 2.1 to 5.0% | 20 Years | 2029 | 10,730,000 |
| Academic VI/Research II, RB#2 | 2009 | 20,335,000 | 2.1 to 5.0% | 20 Years | 2029 | 20,335,000 |
| PE Building Phase II | 2009 | 5,245,000 | 2.1 to 5.0% | 20 Years | 2029 | 5,245,000 |
| Biomedical Research Lab, RB#2 | 2009 | 6,405,000 | 2.1 to 5.0% | 20 Years | 2029 | 6,405,000 |
| Hotel & Conference Center | 2009 | 25,190,000 | 2.1 to 5.0% | 30 Years | 2039 | 25,190,000 |
| Student Union I Addition/Renovation | 2009 | 7,980,000 | 2.1 to 5.0% | 20 Years | 2029 | 7,980,000 |
| Student Union II Renovation | 2009 | 585,000 | 2.1 to 5.0% | 10 Years | 2019 | 585,000 |
| Parking Deck III Phase II | 2009 | 13,885,000 | 2.1 to 5.0% | 25 Years | 2034 | 13,885,000 |
| W. Campus Connector & Campus Entrances | 2009 | 6,010,000 | 2.1 to 5.0% | 20 Years | 2029 | 6,010,000 |
| PW Loop Road and Entrance | 2009 | 575,000 | 3.0 to 5.0% | 7 Years | 2017 | 575,000 |
| Arlington Phase II | 2009 | 5,010,000 | 3.0 to 5.0% | 25 Years | 2035 | 5,010,000 |
| PW Performing Arts Center | 2009 | 3,390,000 | 3.0 to 5.0% | 20 Years | 2030 | 3,390,000 |
| Fairfax Surge Space Fit Out Data Center | 2009 | 1,685,000 | 2.0 to 5.0% | 20 Years | 2030 | 1,685,000 |
| PW Regional Biomedical Laboratory | 2009 | 1,950,000 | 2.0 to 5.0% | 20 Years | 2030 | 1,950,000 |
| Hotel & Conference Center | 2009 | 8,300,000 | 3.0 to 5.0% | 30 Years | 2040 | 8,300,000 |
| Student Union I Addition/Renovation | 2009 | 7,725,000 | 3.0 to 5.0% | 20 Years | 2030 | 7,725,000 |
| Student Union II Renovation | 2009 | <u>4,830,000</u> | 3.0 to 5.0% | 20 Years | 2030 | <u>4,830,000</u> |
| Total Notes Payable | | <u>\$371,545,000</u> | | | | <u>\$355,665,000</u> |

Long-term debt from Notes Payable as of June 30, 2010 matures as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|----------------------|----------------------|
| 2011 | \$11,970,000 | \$16,352,529 | \$28,322,529 |
| 2012 | 13,360,000 | 15,787,466 | 29,147,466 |
| 2013 | 13,655,000 | 15,137,591 | 28,792,591 |
| 2014 | 14,350,000 | 14,468,099 | 28,818,099 |
| 2015 | 14,995,000 | 13,795,225 | 28,790,225 |
| 2016-2020 | 81,555,000 | 57,820,695 | 139,375,695 |
| 2021-2025 | 87,620,000 | 37,917,760 | 125,537,760 |
| 2026-2030 | 79,775,000 | 16,972,725 | 96,747,725 |
| 2031-2035 | 26,995,000 | 5,571,450 | 32,566,450 |
| 2036-2040 | <u>11,390,000</u> | <u>1,097,050</u> | <u>12,487,050</u> |
| Total | <u>\$355,665,000</u> | <u>\$194,920,590</u> | <u>\$550,585,590</u> |

Prior Year Debt Defeasance

The Virginia College Building Authority (VCBA) issued 9(d) VCBA pooled bonds in previous fiscal years for which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The notes representing that other debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased notes are not included in the University's financial statements. On June 30, 2010, \$1,630,000 of notes from the Series 2005 9(d) VCBA pooled bonds, were considered defeased.

10. INSTALLMENT PURCHASES PAYABLE

The University has entered into various installment purchase contracts to finance the acquisition of photocopiers, office modulars, the equipment necessary for the implementation of the Energy Performance Contract Agreements and other equipment. The remaining lengths of the purchase agreements range from one to fifteen years with varying rates of interest.

Principal and interest payments on these commitments for fiscal years subsequent to June 30, 2010 are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|---------------------|--------------------|---------------------|
| 2011 | \$1,588,795 | \$787,986 | \$2,376,781 |
| 2012 | 1,656,289 | 679,128 | 2,335,417 |
| 2013 | 1,469,242 | 616,666 | 2,085,908 |
| 2014 | 1,339,421 | 560,850 | 1,900,271 |
| 2015 | 1,267,583 | 506,252 | 1,773,835 |
| 2016-2020 | 6,894,459 | 1,709,474 | 8,603,933 |
| 2021-2025 | <u>3,805,574</u> | <u>452,522</u> | <u>4,258,096</u> |
| Total | <u>\$18,021,363</u> | <u>\$5,312,878</u> | <u>\$23,334,241</u> |

11. COMPONENT UNITS

The component units' Combining Statement of Net Assets and Combining Statement of Revenues, Expenses, and Changes in Net Assets on the following pages, and subsequent footnotes, comply with the Governmental Accounting Standards Board (GASB) presentation format. Both George Mason University Foundation (GMUF) and Mason Housing, Inc. (MHI) follow the Financial Accounting Standards Board (FASB) presentation format in their individually published financial statements. Consequently, reclassifications have been made to convert their statements to the GASB format.

**Combining Statement of Net Assets
As of June 30, 2010**

| | George Mason University Foundation | Mason Housing, Inc. * | Component Units Total |
|---|---|----------------------------------|----------------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$13,654,439 | \$3,980,604 | \$17,635,043 |
| Short-term investments | 32,400,883 | 4,638,561 | 37,039,444 |
| Accounts receivable, net of allowance | 249,584 | 27,518 | 277,102 |
| Pledges receivable, net of allowance | 6,298,764 | - | 6,298,764 |
| Prepaid expenses | 67,676 | - | 67,676 |
| Leasing commissions | 354,247 | - | 354,247 |
| Unamortized bond issuance costs | 61,931 | 110,330 | 172,261 |
| Total Current Assets | 53,087,524 | 8,757,013 | 61,844,537 |
| Noncurrent assets: | | | |
| Depreciable capital assets, net of accumulated depreciation | 75,768,906 | 29,674,804 | 105,443,710 |
| Nondepreciable capital assets | 25,521,311 | - | 25,521,311 |
| Long-term investments | 48,461,677 | - | 48,461,677 |
| Pledges receivable | 27,453,699 | - | 27,453,699 |
| Other assets | 12,168,373 | - | 12,168,373 |
| Unamortized bond issuance costs | 794,216 | 1,780,882 | 2,575,098 |
| Total noncurrent assets | 190,168,182 | 31,455,686 | 221,623,868 |
| Total assets | 243,255,706 | 40,212,699 | 283,468,405 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | 4,712,341 | 1,388,513 | 6,100,854 |
| Deferred revenue | 1,458,073 | 4,115 | 1,462,188 |
| Deposits held in custody for others | 6,426,837 | 9,590 | 6,436,427 |
| Long-term liabilities – current portion | 2,076,239 | - | 2,076,239 |
| Total current liabilities | 14,673,490 | 1,402,218 | 16,075,708 |
| Noncurrent liabilities | 107,936,434 | 45,162,724 | 153,099,158 |
| Total liabilities | 122,609,924 | 46,564,942 | 169,174,866 |
| NET ASSETS | | | |
| Invested in capital, net of related debt | (191,344) | (1,205,986) | (1,397,330) |
| Restricted: nonexpendable | 57,139,898 | - | 57,139,898 |
| Restricted: expendable | 67,450,104 | - | 67,450,104 |
| Unrestricted | (3,752,876) | (5,146,257) | (8,899,133) |
| Total net assets | \$120,645,782 | \$(6,352,243) | \$114,293,539 |

* March 31, 2010 year-end

**Combining Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2010**

| | George Mason University Foundation | Mason Housing, Inc. * | Component Units Total |
|---|---|----------------------------------|----------------------------------|
| Operating Revenues: | | | |
| Auxiliary enterprises | \$3,833,307 | 233,828 | \$4,067,135 |
| Other operating revenue | 30,801,703 | - | 30,801,703 |
| Total operating revenue | 34,635,010 | 233,828 | 34,868,838 |
| Operating expenses: | | | |
| Instruction | 2,468,913 | - | 2,468,913 |
| Research | 9,390,047 | - | 9,390,047 |
| Public service | 2,815,039 | - | 2,815,039 |
| Academic support | 2,546,065 | - | 2,546,065 |
| Student services | 62,435 | - | 62,435 |
| Institutional support | 7,807,677 | - | 7,807,677 |
| Operation and maintenance of plant | 3,219,848 | - | 3,219,848 |
| Depreciation and amortization | 3,753,435 | 379,694 | 4,133,129 |
| Scholarships and fellowships | 1,719,957 | - | 1,719,957 |
| Auxiliary enterprises | 2,056,370 | 271,283 | 2,327,653 |
| Total operating expenses | 35,839,786 | 650,977 | 36,490,763 |
| Operating income (loss) | (1,204,776) | (417,149) | (1,621,925) |
| Nonoperating revenues (expenses) | | | |
| Investment earnings | 5,552,169 | 243,387 | 5,795,556 |
| Interest expense | (5,595,486) | (738,007) | (6,333,493) |
| Other | 6,739,970 | 5,708,214 | 12,448,184 |
| Net nonoperating revenues | 6,696,653 | 5,213,594 | 11,910,247 |
| Income before other revenues, expenses, gains, and losses | 5,491,877 | 4,796,445 | 10,288,322 |
| Other revenues, expenses, gains, and losses | | | |
| Capital grants and gifts | 14,360,000 | | 14,360,000 |
| Additions to permanent endowments | 978,018 | - | 978,018 |
| Other | (100,929) | - | (100,929) |
| Net other revenues, expenses, gains, and losses | 15,237,089 | - | 15,237,089 |
| Increase (decrease) in net assets | 20,728,966 | 4,796,445 | 25,525,411 |
| Net assets – beginning of year | 99,916,816 | (181,326) | 99,735,490 |
| Prior period adjustment (Note 11) | - | (10,967,362) | (10,967,362) |
| Net assets - beginning of year- restated | 99,916,816 | (11,148,688) | 88,768,128 |
| Net assets – end of year | \$120,645,782 | \$(6,352,243) | \$114,293,539 |

* March 31, 2010 year-end

A. Investments

The fair values of investments by type at June 30, 2010 for the component units are as follows:

| | GMUF | MHI * |
|--|--------------|-------------|
| Cash and money market funds | \$3,158,316 | \$ - |
| Certificates of deposit | 2,761,749 | - |
| Mutual funds: | | |
| Equity funds | 7,830,800 | - |
| Bond funds | 15,488,614 | - |
| U.S. government and agency obligations | - | 4,638,561 |
| Equity securities | 9,425,353 | - |
| Corporate bonds | 12,224,869 | - |
| Alternative investments | 29,972,859 | - |
| Total Investments | \$80,862,560 | \$4,638,561 |
| Less amounts shown in current assets | 32,400,883 | 4,638,561 |
| Long-Term Investments | \$48,461,677 | \$ - |

* March 31, 2010 year-end

B. Contributions Receivable – GMUF

GMUF's pledges receivable as of June 30, 2010 are as follows:

| | |
|-----------------------------|---------------------|
| Due in less than one year | \$6,298,764 |
| Due in one to five years | 23,544,907 |
| Due in more than five years | <u>6,742,847</u> |
| Less discount present value | <u>(2,834,055)</u> |
| Total | <u>\$33,752,463</u> |

Discount rates range from 0.98 percent to 5.69 percent.

As of June 30, 2010, the Foundation received \$8,186,107 of conditional promises to give, primarily matching funds for which the fundraising goals have not yet been achieved. These conditional promises to give are not recognized as assets in the consolidated statement of financial position.

C. Property and Equipment

The following comprises property and equipment for the component units at June 30, 2010:

| | GMUF | MHI * |
|---|---------------|--------------|
| Land | \$19,076,211 | \$ - |
| Buildings and building improvements | 95,751,651 | 30,047,088 |
| Furniture and equipment | 801,953 | 7,410 |
| Construction in Progress | 5,872,532 | - |
| Total | 121,502,347 | 30,054,498 |
| Accumulated depreciation and amortization | (20,784,697) | (379,694) |
| Net property and equipment | \$100,717,650 | \$29,674,804 |

* March 31, 2010 year-end

E. Long-Term Debt – GMUF

Fairfax County Economic Development Authority Bonds

On October 7, 2003, the Foundation issued \$35,125,000 of variable rate Fairfax County Economic Development Authority bonds. \$27,700,000 of the bonds were used to finance a housing project for the University and the remaining \$7,425,000 were used to refinance existing properties the Foundation owns and rents to the University. Interest is accrued and paid monthly, the bonds mature annually on February 1 and the final maturity is on February 1, 2029. Additionally, the Foundation simultaneously entered into an interest rate swap with a commercial bank to effectively fix the interest rate on \$22,425,000 of the bonds.

As a security for the payment of the bonds, the Foundation entered into an irrevocable letter of credit with a commercial bank in the initial amount of \$35,593,333 and expiring on October 15, 2009. The letter of credit amount as of June 30, 2009 was \$30,496,267. Due to the reduction of the commercial bank's credit rating below investment grade, the Foundation replaced the letter of credit facility with that of another commercial bank on October 7, 2009. The substitute commercial bank simultaneously assumed the related interest rate swap derivative instrument. The letter of credit expires on October 6, 2010 and is renewable annually. As of June 30, 2010, no draws have been taken against the letter of credit; however, due to principal payments on the bonds, the letter of credit amount as of June 30, 2010 was reduced to \$29,406,933. As of June 30, 2010 and 2009, the principal balance outstanding on the bonds was \$29,020,000 and \$30,095,000, respectively.

Beginning on June 30, 2005, restrictive covenants related to the bond went into effect, including unrestricted liquidity of not less than \$6,000,000 and a property debt service coverage ratio of not less than 1.20 to 1. On March 30, 2009, the unrestricted liquidity covenant was reduced to \$3,800,000. On October 7, 2009, as a result of the substitution of the letter of credit facility with another commercial bank, the unrestricted

liquidity covenant was further reduced to \$1,100,000. As of June 30, 2010 and 2009, the Foundation was in compliance with the required restrictive covenants.

Interest incurred on the bonds as well as the related swap agreement during fiscal years 2010 and 2009 totaled \$1,145,465 and \$1,158,201, respectively.

GMUF Arlington Campus, LLC Notes

On August 18, 2006, GMUF Arlington Campus, LLC secured a permanent 10-year \$68.5 million loan by executing a deed of trust on real property located at 3434 North Washington Street with a book value of \$58,810,080 with a financial institution. There are two notes ("A note" and "B note") under the deed of trust with the A note for \$64,000,000 at a fixed interest rate of 6.24% per annum, two years interest only, with 30 year amortization thereafter, and the B note for \$4,500,000 at a fixed interest rate of 10.50% per annum, two years interest only, with a 30 year amortization thereafter. The resulting blended rate for the two notes is 6.52%. As of June 30, 2010 and 2009, the principal balance outstanding on the note was \$67,235,598 and \$67,970,520, respectively.

Interest incurred on the notes during fiscal years 2010 and 2009 totaled \$4,506,148 and \$4,608,095, respectively.

GMUF Mason Administration, LLC Bonds

On April 21, 2010 the Fairfax County Development Authority issued its \$36,100,000 Revenue Bond Series 2010A (Tax Exempt – GMUF Mason Administration, LLC Project) and its \$1,900,000 Revenue Bond Series 2010B (Taxable – GMUF Mason Administration, LLC Project) and sold such bonds to a commercial bank pursuant to a Bond Purchase and Loan Agreement dated April 1, 2010. Proceeds are to be used in the acquisition, construction, renovation and equipping of a five-story administration building consisting of approximately 140,000 square feet for classrooms, administrative office and retail space. Under the terms of the Loan Agreement, during the construction period, the commercial bank will make advances to the Foundation upon receipt of required approvals by the construction consultant. Interest-only payments are paid monthly during the construction period on the amount drawn at a floating rate of 64.1% of 1-month Libor plus 1.5% on the 2010A proceeds and on the amount drawn at a floating rate of 1 month Libor plus 2.0% on the 2010B proceeds. The building is expected to be completed in April 2011.

The Foundation's loan obligation is limited to that portion of the bond issuance which it draws upon pursuant to the Bond Purchase and Loan Agreement. As of June 30, 2010, the outstanding loan balance is \$5,155,725.

As part of this transaction, the Foundation simultaneously entered into a forward floating-to-fixed interest rate swap to effectively fix the interest rate on \$32,100,000 of the tax-exempt notional amount and a second forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$1,900,000 taxable notional amount.

Maturities of bonds and notes payable on all of the aforementioned obligations at June 30, 2010 are as follows:

| | |
|------------|----------------------|
| 2011 | \$1,885,004 |
| 2012 | 2,741,360 |
| 2013 | 2,894,811 |
| 2014 | 3,040,789 |
| 2015 | 3,195,922 |
| Thereafter | <u>87,653,437</u> |
| | <u>\$101,411,323</u> |

Derivative Instruments

In October 2003, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of \$22,425,000 at a fixed interest rate of 4.045%, including all costs, on a 20-year amortization schedule. Concurrently, the Foundation entered into a 20-year interest rate cap agreement with the same financial institution in the notional amount of \$12,700,000, at a rate of 10%. The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the bonds and to eliminate changes in the market interest rates. The interest rate swap agreement was assumed by another financial institution in October 2009 in conjunction with the assumption of the letter of credit securing the Fairfax County Economic Development Authority bonds. At June 30, 2010 and 2009, the notional amount on the swap was \$17,125,000 and \$18,625,000 and on the cap was \$11,425,000 and \$11,600,000, respectively.

The fair value of the interest rate swap at June 30, 2010 and 2009, totaled a derivative liability of \$2,425,458 and \$1,361,210, respectively. The fair value of the interest rate cap totaled a derivative liability of \$6,070 at June 30, 2010 and a derivative asset of \$49,451 at June 30, 2009. The net change in value has been recorded as a loss on derivatives in the consolidated statement of activities. Additionally, all assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity in 2024.

In October 2006, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of \$25,775,000 on a 23-year amortization schedule. The swap was used as a cash flow hedge to stabilize the interest rate for the last five years of the bond issue related to the student housing project and expects to create positive cash flows over the remaining bond life. At closing on October 19, 2006, the Foundation received \$250,000 up front cash. Under the swap agreement, beginning in February 2007 the Foundation received the difference between the Bond Market Association (BMA) index and 68.48% of the 5 year LIBOR index from the swap provider. When the BMA index was higher than 68.48% of the 5 year LIBOR index, the Foundation paid the difference to the swap provider. In fiscal years 2010 and 2009, the swap provider paid \$56,127 and \$184,571, respectively, to the Foundation which is included in interest expense on the consolidated statement of activities.

Upon mutual agreement by the Foundation and the financial institution, the interest rate swap agreement, and derivative liability of \$229,040 at June 30, 2009, was terminated September 2, 2009. The Foundation received a \$99,201 payment from the financial institution in consideration of the termination. The net change in value has been recorded with the loss on derivatives in the consolidated statement of activities.

In March 2010, as part of the GMUF Mason Administration, LLC Project, the Foundation entered into a forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$32,100,000 tax-exempt notional amount and a second forward-to-floating interest rate swap to effectively fix the interest rate on the \$1,900,000 taxable notional amount with a commercial bank. The swap transactions are effective on June 1, 2011. The termination date is June 1, 2036 for the tax-exempt notional amount and December 1, 2013 for the taxable notional amount. The tax-exempt swap has an option to terminate at no risk at the end of the 13th year. The fair value of the interest rate swaps at June 30, 2010 totaled a derivative liability of \$2,662,606. The net change in value has been recorded as a loss on derivatives in the consolidated statement of activities.

F. Notes Payable – MHI

In October 2008, the Fairfax County Economic Development Agency (EDA) issued \$39,760,000 of variable rate bonds in order to provide financing for the development of the MHI housing units. A third party financial institution (the bank) acquired the bonds and remitted the bond sales proceeds, net of fees and other debt issuance costs to a trustee appointed to receive the funds on behalf of MHI. Concurrently, MHI and EDA entered into a loan agreement, whereby EDA loaned the bond proceeds to MHI on substantially the same terms as the initial bond issuance. These transactions were in accordance with a series of agreements entered into by the three parties in October 2007, with the October 2008 amendments relating primarily to the dates of the closing of the transactions, the amounts loaned and the interest rates incurred. In addition, as outlined in the original agreements entered into in October 2007, MHI and the bank entered into a swap agreement which exchanged the variable rate loan borne by MHI with a fixed rate loan split between two tranches. The Organization has determined that the amendments to the original agreements entered into in October 2008 are not substantial and has treated these amendments as a debt modification. Accordingly, certain fees payable to the bank to amend the original agreements have been added to the deferred financing costs incurred in obtaining this financing.

As a result of the above transactions, the Organization has a note payable with a fixed interest rate of 3.938% plus an initial indexed floating rate spread of 1.100% (aggregate interest rate of 5.038% at March 31, 2010) and a maturity date of August 1, 2039. The note is secured on the Company's property and future rental income. Interest is payable monthly on the note payable, commencing November 2008. Annual principal payments commence in August 2011.

As substantially all of the debt proceeds were used to fund the building and development of the MHI housing units, interest incurred on the note payable and letter of credit were capitalized as part of the construction costs while the units were under construction. The total amount of interest capitalized, and the total amount of interest expensed during the year ended March 31, 2010 pertaining to the note payable amounted to \$1,301,536 and \$699,641, respectively. The total amount of interest capitalized and the total amount of interest expensed during the year ended March 31,

2010 pertaining to both the note payable and the amortization of the deferred financing costs amounted to \$1,373,500 and \$738,007, respectively. Total interest paid during the year ended March 31, 2010 amounted to \$2,001,177.

The following schedule shows principal payments due under the note payable as of March 31, 2010:

| | |
|------------|---------------------|
| 2011 | \$ - |
| 2012 | 35,000 |
| 2013 | 45,000 |
| 2014 | 80,000 |
| 2015 | 140,000 |
| Thereafter | <u>39,460,000</u> |
| Total | <u>\$39,760,000</u> |

Interest Rate Swap Agreements

In October 2008, the Organization entered into a forward interest rate swap agreement to effectively exchange the variable interest rate of \$39,760,000 of notes payable during the period from October 2008 through August 2039, for a fixed interest rate of 3.938%. The difference paid or received under this agreement is recognized as an adjustment to interest expense.

Prior Period Adjustment- MHI

As outlined above, MHI entered into an interest rate swap in October 2008. The Company is required to record the fair value of the swap on its balance sheet at each reporting period date, and record movements in the swap's fair value in its Statement of Activities each reporting period. MHI did not obtain a valuation or record the fair value of the swap in FY 2009. MHI's independent auditor obtained a confirmation of the valuation of the fair value of the interest rate swap as of 3/31/2009 from Bank of America, which showed that the swap should be recorded as a liability at the end of FY 2009 in the amount of \$11,110,938, with an offsetting charge to unrealized loss on swap investment. The correction of this error results in a decrease in FY 2010 beginning net assets of \$11,110,938. In addition, in FY 2009, MHI expensed some interest costs that should have been capitalized. The correction of this error results in an increase in FY 2010 beginning net assets of \$143,576. The net decrease in FY 2010 beginning net assets is therefore \$10,967,362, which is recorded as a Prior period adjustment to Net assets beginning of year on the Statement of Revenues, Expenses and Changes in Net Assets.

12. EXPENSES BY NATURAL CLASSIFICATION

The following table shows a classification of expenses both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

| | <u>Salaries and Wages</u> | <u>Fringe Benefits</u> | <u>Goods and Services</u> | <u>Scholarships and Fellowships</u> | <u>Depreciation</u> | <u>Total</u> |
|------------------------------------|-------------------------------|----------------------------|-------------------------------|---|---------------------|----------------------|
| Instruction | \$153,127,784 | \$34,718,935 | \$19,398,459 | - | - | \$207,245,178 |
| Research | 38,641,640 | 7,010,973 | 16,422,384 | - | - | 62,074,997 |
| Academic Support | 27,640,170 | 7,490,011 | 8,421,065 | - | - | 43,551,246 |
| Student Services | 13,059,283 | 3,726,872 | 3,458,282 | - | - | 20,244,437 |
| Public Service | 7,029,589 | 1,679,548 | 9,076,130 | - | - | 17,785,267 |
| Operation and Maintenance of Plant | 8,992,220 | 3,117,522 | 22,335,209 | - | - | 34,444,951 |
| Institutional Support | 28,425,694 | 8,328,017 | 7,125,395 | - | - | 43,879,106 |
| Depreciation Expense | - | - | - | - | 36,386,504 | 36,386,504 |
| Scholarships and Fellowships | - | - | - | 21,260,499 | - | 21,260,499 |
| Auxiliary Enterprises | <u>26,726,167</u> | <u>6,808,756</u> | <u>55,638,896</u> | - | - | <u>89,173,819</u> |
| Totals | <u>\$303,642,547</u> | <u>\$72,880,634</u> | <u>\$141,875,820</u> | <u>\$21,260,499</u> | <u>\$36,386,504</u> | <u>\$576,046,004</u> |

13. STATE APPROPRIATIONS- CURRENT UNRESTRICTED FUNDS

George Mason University receives appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements. The following is a summary of General Fund appropriations received by the institution including all supplemental appropriations and reversions:

| | |
|---|----------------|
| Original Appropriation | \$ 139,213,610 |
| Central Adjustments: | |
| 2010 budget reduction | (20,999,742) |
| Program 713 budget reduction | (4,171,140) |
| Item 280 E reduction | (1,330,005) |
| Central Adjustments for Salary and Benefits: | |
| Employee benefits adjustments | (2,009,634) |
| VRS budget reduction | (2,234,936) |
| Delay of 4 th quarter VRS employee share | (2,218,406) |
| Funds for VIVA Program | <u>30,604</u> |
| Total | 106,280,351 |

14. INTEREST EXPENSE

During fiscal year 2010, the University incurred interest expense totaling \$23,010,725. Of this amount, \$10,535,354 was capitalized as part of the cost of construction and \$12,475,371 was expensed.

15. COMMITMENTS

A. Operating Leases

The University is committed under various operating leases for rental of off-campus facilities. The leases are for one to ten year terms. Facility rental expenses for the fiscal year ended June 30, 2010 were \$5,624,294. The University had, as of June 30, 2010, the following total future minimum rental payments due under the above leases:

| <u>Year Ended June 30,</u> | |
|----------------------------|---------------------|
| 2011 | \$ 5,047,567 |
| 2012 | 2,866,369 |
| 2013 | 2,665,922 |
| 2014 | 767,382 |
| 2015 | <u>207,857</u> |
| Total | <u>\$11,555,097</u> |

B. Construction

Outstanding commitments for capital outlay projects that were under construction at June 30, 2010 were \$77,815,496.

16. RETIREMENT AND PENSION SYSTEMS

A. Virginia Retirement System (VRS)

Substantially all full-time classified salaried employees of George Mason University participate in the defined benefit retirement plan administered by VRS. The VRS is an agent multiple-employee public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information relating to this plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). Because the employees of the University are also employees of the Commonwealth, the Commonwealth of Virginia and not the University has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the

Commonwealth's unfunded pension benefit obligation at June 30, 2010. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately \$9,830,997 for the year ended June 30, 2010. The retirement contribution rate was 10.2% for fiscal year 2010. Contributions to VRS were calculated using the base salary amount of approximately \$96,572,473 for the year ended June 30, 2010. The delayed employee share (employer paid) 4th quarter retirement contributions are accrued in this amount. The suspended employer share 4th quarter contributions are not included.

The University's law enforcement officers participate in the Virginia Law Officers' Retirement System (VaLORS). The University's expenses include the amount assessed by the Commonwealth for contributions to VaLORS, which totaled approximately \$462,665 for the year ended June 30, 2010. The VaLORS retirement contribution rate was 15.6% for fiscal year 2010. Contributions to VaLORS were calculated using the base salary amount of approximately \$2,963,329 for the year ended June 30, 2010.

The University's total payroll was approximately \$303,642,547 for fiscal year 2010.

B. Faculty Retirement Plans

Most full-time faculty and certain administrative staff participate in one faculty retirement plan with two investment providers rather than the VRS. These are defined contribution plans where the retirement benefits received are based upon the employer's 10.4 percent contribution plus interest and dividends. The employee is not required to make contributions to the program. Individual contracts issued under the plan provide for full and immediate vesting of the University's contributions. As with VRS, the employees' contributions are assumed by the employer. Total pension costs under these plans were approximately \$15,411,911 for the year ended June 30, 2010. Contributions were calculated using the plan's covered payroll of approximately \$148,191,452 for fiscal year 2010. The University's total payroll for fiscal year 2010 was approximately \$303,642,547. The following schedule summarizes the cost and participation in the optional retirement plans.

| <u>Faculty Retirement Plans</u> | <u>Retirement Pension Cost</u> | <u>Plan's Covered Payroll</u> | <u>Contribution Percentage</u> |
|---------------------------------|--------------------------------|-------------------------------|--------------------------------|
| TIAA-CREF* | \$10,896,250 | \$104,771,635 | 10.4% |
| Fidelity Investments | <u>4,515,661</u> | <u>43,419,817</u> | 10.4% |
| Total | <u>\$15,411,911</u> | <u>\$148,191,452</u> | |

*Teachers Insurance and Annuity Association/College Retirement Equities Fund

C. Deferred Compensation

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan.

Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately \$1,062,112 for the fiscal year ended June 30, 2010.

17. POST-RETIREMENT BENEFITS

The Commonwealth participates in the VRS administered statewide group life insurance program which provides post employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of service and participate in the State health plan. Information related to these plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

18. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts; theft, or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The Department of Human Resource Management administers the Commonwealth employee health care and worker's compensation plans, and the Department of Treasury, Division of Risk Management, administer the risk management insurance plans. Risk management insurance includes property, general liability, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

19. PRIOR PERIOD ADJUSTMENT

In FY 2010, the University recorded a prior period adjustment to reflect accrued interest payable as of June 30, 2009 which was not reported on the FY 2009 financial statements. The total accrued interest payable at that date was \$5,771,128, which was composed of \$3,493,981 of interest capitalized to construction-in-progress and \$2,277,147 of interest expense, which is incorporated into the FY 2010 financial statements on the Statement of Revenues, Expenses, and Changes in Net Assets as an adjustment to beginning net assets.

20. SUBSEQUENT EVENTS

During the period July 2010 – January 2011, the University executed new commitments for 4 capital outlay projects totaling \$15.7 million.

On September 29, 2010, the Board of Visitors of George Mason University passed a resolution to accept a gift of land from George Mason University Foundation. The property is adjacent to the Point of View property, located in Mason Neck, Virginia, that was gifted to the University by the Foundation during FY 10. The University plans to use the property to construct a waste water treatment facility to support planned construction at Point of View.

During October 2010, the Commonwealth Treasury Board completed the sale of the General Obligation Bonds, Series 2010A-2 (Taxable Build America Bonds). The University's share of the total principal amount of the bonds issued is \$48.9 million. The University will use the proceeds of these bonds to finance several student housing construction and renovation projects. Payment on the bonds will be made semi-annually, with an interest rate ranging from 2.1 to 5 percent. However, because these bonds are Build America Bonds, 35% of each interest payment will be subsidized by the Federal government under the terms of the American Recovery and Reinvestment Act of 2009. The final payment will be due in 2034.

Also during October 2010, the University entered into seven promissory notes with the Virginia College Building Authority (VCBA) to participate in the Educational Facilities Revenue Bonds, Series 2010A, issued by the VCBA under its Pooled Bond Program. The total principal amount of these notes is \$23.2 million. The University will use the proceeds of these notes to finance several construction and renovation projects including two new buildings, five additions/renovations, and other campus improvements. Payment on the notes will be made semi-annually, with an interest rate ranging from 2 percent to 5.6 percent. However, because \$19.6 million of the total notes are financed with Build America Bonds, 35% of each interest payment for these notes will be subsidized by the Federal government under the terms of the American Recovery and Reinvestment Act of 2009. The final payment will be due in 2036.

INDEPENDENT AUDITOR'S REPORT



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

February 10, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
George Mason University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **George Mason University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2010, and the respective

changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated February 10, 2011, on our consideration of George Mason University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.


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